

Financial Statements
Years Ended
June 30, 2004 and 2003



Hampton-Newport News Community Services Board

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Hampton-Newport News Community Services Board

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Report of Independent Auditors

Board of Directors

Hampton-Newport News Community Services Board

We have audited the accompanying financial statements of the ***Hampton-Newport News Community Services Board*** (CSB), as of and for the years ended June 30, 2004 and 2003, as listed in the table of contents. These financial statements are the responsibility of the CSB's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Commonwealth of Virginia's Auditors of Public Accounts; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the CSB, as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2004, on our consideration of the CSB's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors

Hampton-Newport News Community Services Board

As described in Note 2 to the financial statements, the CSB adopted the provisions of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This results in the inclusion of two legally separate units as blended component units of the CSB.

Our audits were performed for the purpose of forming an opinion on the financial statements of the CSB, taken as a whole. The accompanying information listed as supplementary information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Furthermore, the accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services, and is not a required part of the financial statements. Such information, except for that portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Goodman & Company

Newport News, Virginia
November 1, 2004

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of the Hampton-Newport News Community Services Board (CSB) activities and financial performance provides the reader with an introduction and overview to the financial statements of the CSB for the fiscal year ended June 30, 2004. While the MD &A focuses on CSB operations, the accompanying financial statements which follow the MD &A also report the operations of two related entities, the Hampton-Newport News Community Services Board Property Company, Inc. (Property Company) and Share-a-Homes of the Virginia Peninsula, Inc. (SAH) as described below.

The CSB has adopted the provisions of Governmental Accounting Standards Board No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the CSB should report as a component unit based on the nature and significance of their relationship with the CSB. Generally, it requires reporting, as a component unit, any organization that raises and holds economic resources for the direct benefit of the CSB. In the basic financial statements which follow the MD&A the operations of Property Company and SAH have been blended with CSB.

Following the MD&A are the basic financial statements of the CSB together with the notes thereto which are essential to a full understanding of the data contained in the financial statements, certain supplementary information including the schedule of expenditures of federal awards and the schedule of insurance are provided.

CSB Financial Operations Highlights

CSB disabilities of Mental Health, Mental Retardation and Substance Abuse revenues increased in each area during FY04 as follows:

	2004	2003	% Change
Mental Health	\$ 18,457,256	\$ 13,663,664	35.08 %
Mental Retardation	12,259,299	11,651,608	5.22 %
Substance Abuse	7,447,312	7,438,103	0.12 %
Administration	518,363	365,935	41.65 %
Total	\$ 38,682,230	\$ 33,119,310	16.80 %

Summary of Operations and Changes in Net Assets

	2004	2003
Operating revenues including appropriations	\$ 38,568,373	\$ 33,116,168
Operating expenses	36,859,316	31,984,193
Excess before interest income (expense)	1,709,057	1,131,975
Interest income	44,986	34,855
Interest expense	(415,777)	(426,118)
Net interest expense	(370,791)	(391,263)
Change in net assets	\$ 1,338,266	\$ 740,712

The increase in net assets for the year ended June 30, 2004 was \$1,338,266 and compares favorably with the \$740,712 increase in net assets for the year ended June 30, 2003. Operating revenues increased overall in FY04 along with operating expenses.

Financial Position Summary

A condensed summary of the CSB's statements of net assets at June 30 is shown below:

	<u>2004</u>	<u>2003</u>
Assets		
Current and other assets	\$ 6,189,246	\$ 4,929,803
Capital assets (net of depreciation)	<u>17,947,376</u>	<u>8,869,044</u>
Total assets	<u>\$ 24,136,622</u>	<u>\$ 13,798,847</u>
Liabilities		
Current liabilities	\$ 11,540,357	\$ 4,537,415
Long-term liabilities	<u>7,846,447</u>	<u>5,849,880</u>
Total liabilities	<u>19,386,804</u>	<u>10,387,295</u>
Net Assets	<u>4,749,818</u>	<u>3,411,552</u>
Total liabilities and net assets	<u>\$ 24,136,622</u>	<u>\$ 13,798,847</u>

Changes in the Statement of Net Assets Explanations

- **Assets:**
 - **Current and other assets**
 - Reinvestment Project bridge funding received at the end of fiscal year 2003 in the amount of \$894,037 and deferred until fiscal year 2004 was expended for project implementation in fiscal year 2004. The funding permitted transition of 43 acute care beds at Eastern State Hospital to local psychiatric inpatient facilities. Hampton-Newport News CSB is the Fiscal Agent for the HPR-V district, which consists of 9 CSB's located in the areas outside of Richmond to Virginia Beach and the Eastern Shore for FY04 and FY05.
 - Accounts receivable was higher at the end of fiscal year 2004 due to the increase in Medicaid billing for new programs and fiscal year 2004 local revenue accrued but not year received.
 - **Capital Assets**
 - In FY04, the CSB purchased land and property known as Hampton Medical Center for approximately \$9.4 million. Upon completion of renovations, this new facility will replace the facilities at 2501 and 2712 Washington Avenue.

Changes in the Statement of Net Assets Explanations (Continued)

- **Liabilities**

- **Current Liabilities**

- Deferred revenue is revenue that is received but not earned and therefore, carried forward into the next fiscal year. The revenue received at the end of the year for the Reinvestment Project, discussed in the Asset section above, was deferred until fiscal year 2004 when it was earned.

- **Long-Term Liabilities**

- Long-term liabilities remain essentially unchanged and represent the potential payout to employees upon separation of employment of up to 160 hours of accrued leave.

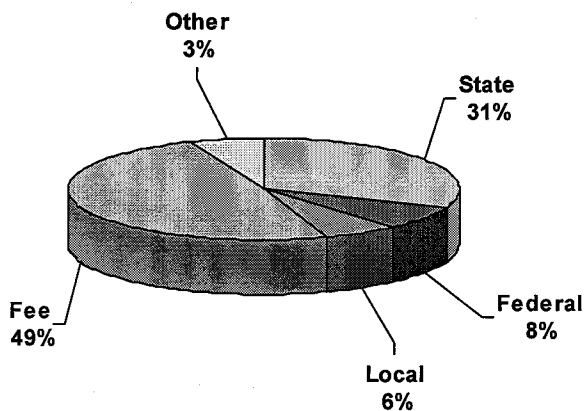
CSB Rates and Charges

Every year during the budget period the program directors along with the program managers look at the service rates charged for each service to examine if they need any adjustments. The fee schedule for each applicable service is then included in the budget. The Board of Directors approves the CSB budget submission in June of each year.

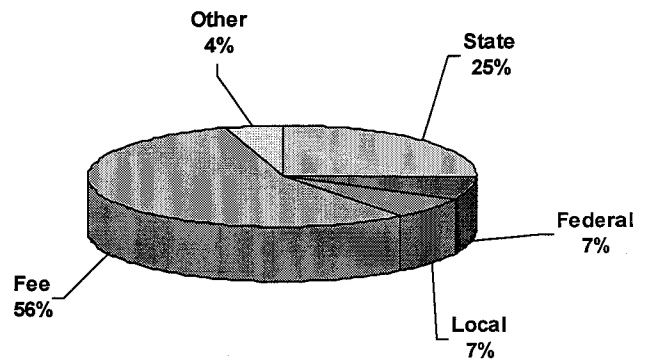
Revenues

The following chart shows the major sources and the percentage of operating revenues for the years ended June 30, 2004 and 2003:

FY2004 REVENUES BY SOURCE



FY2003 REVENUES BY SOURCE



Revenues (Continued)

A summary of revenues for the years ended June 30, 2004 and 2003 and the amount and percentage change of 2004 in relation to 2003 is as follows:

	2004	2003	% Change
State Revenue	\$ 13,022,421	\$ 8,664,412	50.29 %
Federal Revenue	2,995,739	2,452,523	22.15 %
Local Revenue	2,411,012	2,368,220	1.80 %
Fee Revenue	18,971,590	18,204,044	4.20 %
Other Revenue	1,281,468	1,430,111	(10.39) %
Total Revenue	\$ 38,682,230	\$ 33,119,310	16.80 %

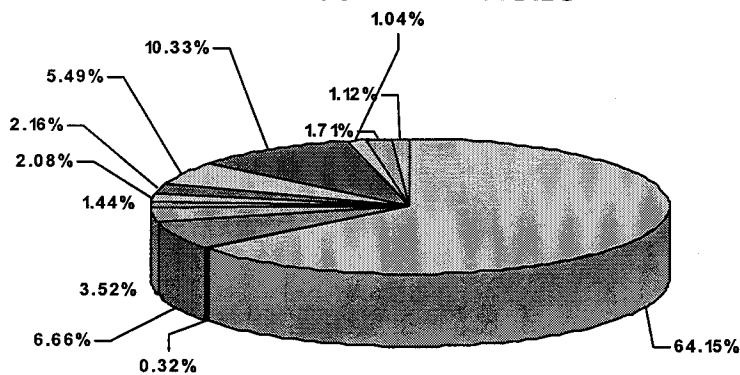
Change in Revenue Explanations

- **State Revenue**
 - State revenue increased by \$4,358,009 and included additional funds to support the Regional Acute Care Reinvestment Project with HNNCSB as fiscal agent for the region.
- **Federal Revenue**
 - Federal revenues increased primarily due to receipts for FEMA funded projects associated with Hurricane Isabel.
- **Fee Revenue**
 - Increased by \$767,546 primarily due to implementation of a new Children's Day Treatment Program, and fees from full year implementation of inpatient consultation and emergency room crisis services.

Expenses

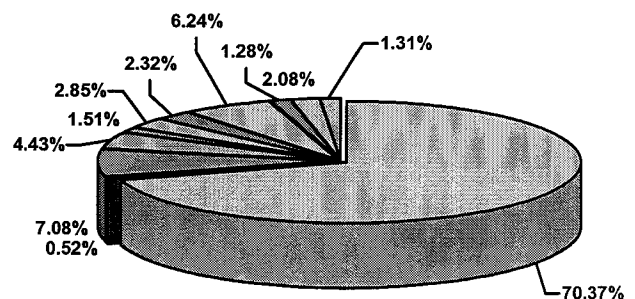
The following charts show the expense categories and percentage of operating expenses for the years ended June 30, 2004 and 2003:

FY2004 EXPENSES



Personnel	Development
Facility	Equipment/supplies
Travel	Professional
Family Support	Contract
Inpatient	Miscellaneous
Depr/Amort	Interest

FY2003 EXPENSES



Personnel	Development
Facility	Equipment/supplies
Travel	Professional
Family Support	Contract
Miscellaneous	Depr/Amort
Interest	

A summary of expenses for the years ended June 30, 2004 and 2003, and the increase (decrease) from 2004 in relation to 2003 is as follows:

	2004	Percent of Total	2003	Percent of Total	Increase (Decrease) from 2003
Personnel	\$ 23,913,697	64.15%	\$ 22,805,539	70.37%	\$ 1,108,158
Development	117,527	0.32%	170,144	0.52%	(52,617)
Facility	2,483,595	6.66%	2,295,361	7.08%	188,234
Equipment/Supplies	1,311,674	3.52%	1,436,884	4.43%	(125,210)
Travel	536,403	1.44%	488,179	1.51%	48,224
Professional	773,945	2.08%	924,126	2.85%	(150,181)
Family Support	804,057	2.16%	753,054	2.32%	51,003
Contract Program	2,045,906	5.49%	2,021,081	6.24%	24,825
Acute Inpatient Care	3,849,016	10.33%	-	- %	3,849,016
Miscellaneous	386,741	1.04%	415,934	1.28%	(29,193)
Depreciation/Amortization	636,755	1.71%	673,891	2.08%	(37,136)
Interest	415,777	1.12%	426,118	1.31%	(10,341)
Total	\$ 37,275,093	100.00%	\$ 32,410,311	100.00%	\$ 4,864,782

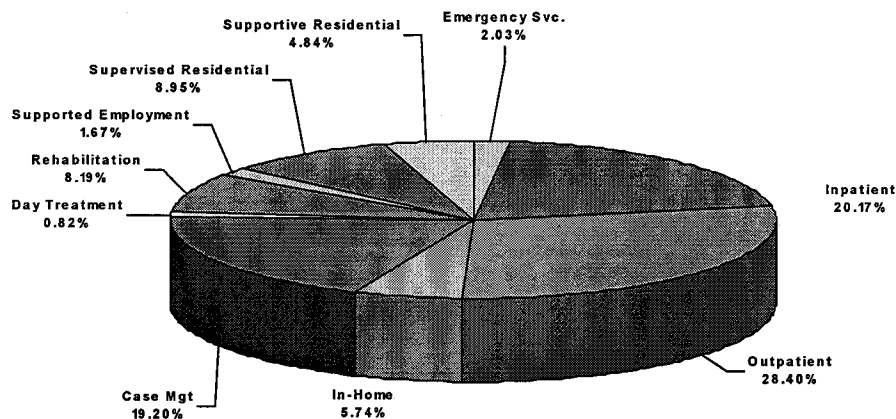
Change in Expense Explanations

- **Personnel expenses** - increased during the fiscal year due to a 2.25% COLA that was given to all employees in fiscal year 2004 and increases in Worker Compensation premiums.
 - **Personnel expenses in detail are:**
 - Salary and Hourly Wages \$18,938,580
 - Taxes \$ 1,457,667
 - Health/Disability/Life/WC \$ 2,389,647
 - VA Retirement System \$ 1,127,803
- **Facility costs** - increased due to the additional rent and annualized rents incurred by the new group homes implemented during fiscal year 2003 and the new Day Treatment facility, as well as rents for facilities leased from others.
- **Travel** - increased due to a change in the approved mileage rate payable for staff travel from 28 to 32 cents per mile.
- **Acute Inpatient Program** – represents the initial program year for the regional acute care reinvestment project which began in November 2003.

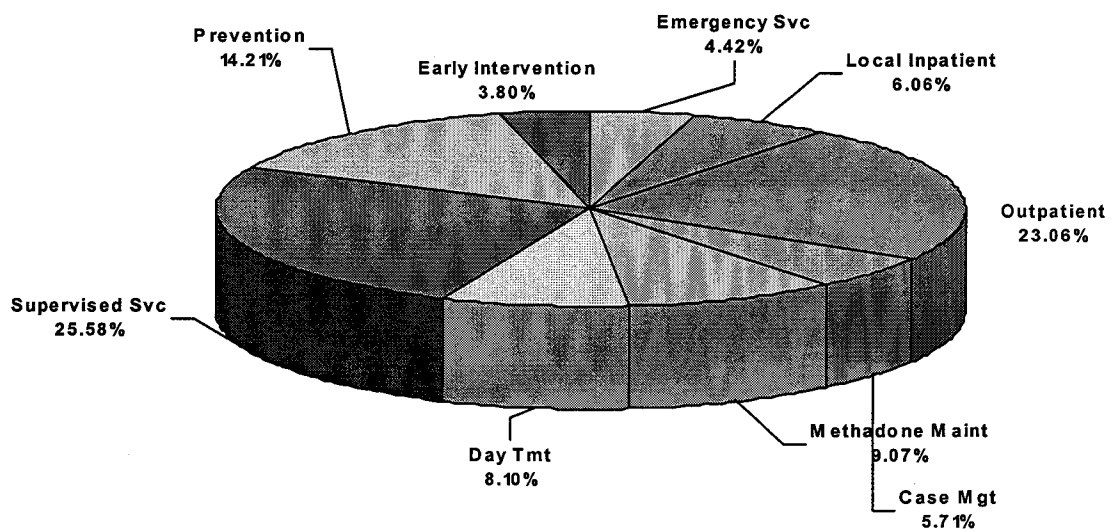
Core Services

Core services are defined by the Department of Mental Health, Mental Retardation, and Substance Abuse in the Core Services Taxonomy. The Taxonomy classifies all of the individual programs provided by Community Services Boards into the broader core service categories. The following charts show the core service and percentage of operating expenses by disability for the year ended June 30, 2004:

FY2004 MENTAL HEALTH CORE SERVICES

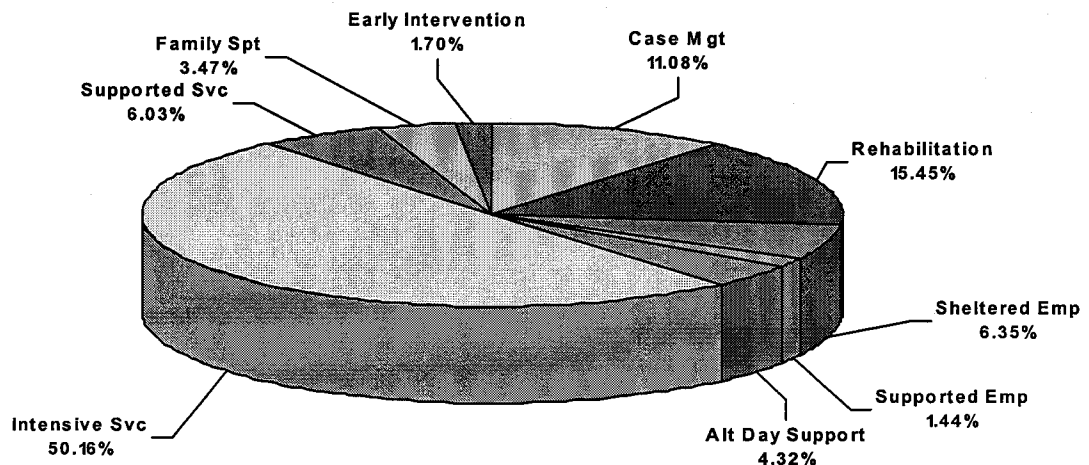


FY2004 SUBSTANCE ABUSE CORE SERVICES



Core Services (Continued)

FY2004 MENTAL RETARDATION CORE SERVICES



Expenses

A summary of expenses by core service for the year ended June 30, 2004, and the amount of change in relation to prior year is as follows:

MENTAL HEALTH CORE SVCS	2004	Percent of Total	2003	Percent of Total	Increase (Decrease) from 2003
MH-100 Emergency Service	\$ 367,376	2.03%	\$ 409,595	3.03%	\$ (42,219)
MH-250 Local Inpatient	3,654,151	20.17%	211,254	1.56%	3,442,897
MH-310 Outpatient	5,144,705	28.39%	4,478,239	33.10%	666,466
MH-315 In Home	1,040,188	5.74%	846,739	6.26%	193,449
MH-320 Case Management	3,478,451	19.20%	2,403,425	17.76%	1,075,026
MH-350 Assertive Comm.	-	- %	958,924	7.09%	(958,924)
MH-410 Partial Hosp.	-	- %	292,408	2.16%	(292,408)
MH-415 Therapeutic Day	149,301	0.82%	72,227	0.53%	77,074
MH-425 Rehabilitation	1,483,294	8.19%	1,223,549	9.04%	259,745
MH-460 Supported Emp.	302,973	1.67%	283,392	2.09%	19,581
MH-551 Supervised Service	1,621,767	8.95%	1,599,719	11.82%	22,048
MH-581 Supported Service	876,237	4.84%	751,701	5.56%	124,536
Total Mental Health	\$ 18,118,443	100%	\$ 13,531,172	100%	\$ 4,587,271

Expenses (Continued)

SUBSTANCE ABUSE CORE SVCS

SA-100 Emergency Service	\$	342,150	4.42%	\$	264,358	3.63%	\$	77,792
SA-250 Local Inpatient		470,000	6.06%		-	- %		470,000
SA-310 Outpatient		1,786,733	23.06%		1,800,702	24.76%		(13,969)
SA-320 Case Management		442,286	5.71%		415,577	5.71%		26,709
SA-340 Methadone Maintenance		702,574	9.07%		693,862	9.54%		8,712
SA-410 Day Treatment		627,468	8.10%		618,580	8.50%		8,888
SA-521 Supervised Service		1,982,607	25.58%		2,052,638	28.22%		(70,031)
SA-610 Prevention		1,101,197	14.21%		1,199,934	16.50%		(98,737)
SA-620 Early Intervention		294,398	3.80%		228,375	3.14%		66,023
Total Substance Abuse	\$	7,749,413	100%	\$	7,274,026	100%	\$	475,387

MENTAL RETARDATION CORE SVCS

MR-320 Case Management	\$	1,349,023	11.08%	\$	1,017,375	8.99%	\$	331,648
MR-425 Rehabilitation		1,881,149	15.45%		1,834,006	16.21%		47,143
MR-430 Sheltered Emp.		773,326	6.35%		748,864	6.62%		24,462
MR-460 Supported Emp.		174,777	1.44%		115,263	1.02%		59,514
MR-475 Alt. Day Support		525,301	4.32%		476,342	4.21%		48,959
MR-521 Intensive Service		6,105,510	50.16%		5,789,240	51.16%		316,270
MR-581 Supported Service		734,337	6.03%		750,719	6.63%		(16,382)
MR-587 Family Support		422,809	3.47%		405,198	3.58%		17,611
MR-620 Early Intervention		206,813	1.70%		178,175	1.57%		28,638
Total Mental Retardation	\$	12,173,045	100%	\$	11,315,182	100%	\$	857,863

Significant Changes in Expenses by Core Service Explanations

- **Mental Health**

- **Local Inpatient-** substantial increases due to implementation of the regional acute care reinvestment project. Expenses shown include HNNCSB and all other Boards in the project.
- **Outpatient services** – Additional staff have been added to meet growing demand for outpatient mental health services.
- **Assertive Community Treatment** – Reported with Mental Health Case Management in fiscal year 2004.
- **Partial Hospitalization** – Reported with Rehabilitation in fiscal year 2004.

Significant Changes in Expenses by Core Service Explanations (Continued)

- **Mental Retardation**

- **Rehabilitation services** - increased due to the completion of a new facility that allowed expansion of the service
- **Supported employment expense** - increased due to greater consumer and family demand for this service.
- **Intensive services** - expenses increased due to annualization of a new group home that was established during fiscal year 2003 and increased level of staff support provided.

- **Substance Abuse**

- **Emergency Services** - increased due to transition of a portion of this service from Mental Health
- **Local Inpatient** – increased due to implementation of the regional acute care reinvestment project.

Capital Acquisitions

- One MR Group Home was completed and occupied in FY04. This home is owned by Share-a-Homes of the Virginia Peninsula, Inc. and leased to the Hampton-Newport News CSB.
- A new Central Services Campus site was purchased in FY04. The campus is owned by Hampton-Newport News Community Services Board Property Company, Inc. and when completed will be occupied and leased to the Hampton-Newport News CSB. When completed the site will consist of 6 buildings totaling 140,400 square feet on 13.42 acres. Construction will continue through fiscal year 2005 with first occupancy expected in the fourth quarter. The new campus will replace facilities owned by Hampton-Newport News Property Company, Inc. and leased to HNNCSB at 2501 Washington Avenue and 2712 Washington Avenue. It is planned that these facilities will be sold. The new campus will also be occupied by programs relocated from other facilities currently leased from others.

Debt

As of June 30, 2004, the Hampton-Newport News Community Services Board, Hampton-Newport News Property Company, Inc. and Share-A-Homes of the Virginia Peninsula have total debt as follows:

Hampton-Newport News CSB	\$ -
Hampton-Newport News Property Company, Inc.	15,272,092
Share-A Homes of the Virginia Peninsula, Inc.	<u>1,531,861</u>
Total Debt	<u>\$16,803,953</u>

All of the debt is collateralized by properties owned by the indebted entities and assignment of lease payments from the HNNCSB. The related notes are held by Old Point National Bank and Bank of America.

Financial Statements

CSB provides behavioral health care services in the areas of mental health, mental retardation and substance abuse services. According to Governmental Accounting Standards Board (GASB) Statement No. 34, community services boards are special purpose governmental entities engaged in business-type activities. Therefore, the appropriate financial reporting model utilized by the CSB is the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

Request for Information

This financial report is designed to provide a general overview of the CSB's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Director, Financial Services, Hampton-Newport News Community Services Board, 2501 Washington Avenue, Newport News, VA 23607.

Hampton-Newport News Community Services Board

Statements of Net Assets

June 30,	2004	2003 (A)
Assets		
Current assets		
Cash and cash equivalents	\$ 1,785,408	\$ 1,619,483
Accounts receivable:		
Grants and contracts	1,850,896	1,202,841
Medicaid/Medicare	1,928,510	1,439,036
Other	9,958	19,287
Due from affiliates	100,114	406,226
Inventory	18,947	7,581
Prepaid expenses	12,422	93,822
Current maturities of note receivable	63,203	-
Total current assets	5,769,458	4,788,276
Restricted assets - cash held for trust beneficiaries	75,811	77,360
Capital assets - less accumulated depreciation	17,947,376	8,869,044
Other assets		
Note receivable - less current maturities	252,814	-
Escrow deposit	6,000	6,000
Financing costs - net	65,418	35,027
Security deposits	19,745	23,140
Total other assets	343,977	64,167
Total assets	\$ 24,136,622	\$ 13,798,847
Liabilities and Net Assets		
Current liabilities		
Note payable - bank	\$ 9,399,537	\$ 1,450,000
Current portion of long-term debt	421,715	545,624
Current portion of obligations under capital leases	8,833	131,803
Accounts payable	393,128	506,634
Accrued expenses	796,643	713,821
Deferred revenue	520,501	1,189,533
Total current liabilities	11,540,357	4,537,415
Long-term liabilities		
Due to trust beneficiaries	75,811	77,360
Accrued expense - vacation	787,935	766,518
Long-term debt	6,982,701	4,993,806
Obligations under capital leases - less current portion	-	12,196
Total long-term liabilities	7,846,447	5,849,880
Total liabilities	19,386,804	10,387,295
Net assets		
Invested in capital assets - net of related debt	1,134,590	1,735,615
Unrestricted	3,615,228	1,675,937
Total net assets	4,749,818	3,411,552
Total liabilities and net assets	\$ 24,136,622	\$ 13,798,847

(A) As restated

The accompanying notes are an integral part of these financial statements.

Hampton-Newport News Community Services Board

Statements of Revenues and Expenses and Changes in Net Assets

Years Ended June 30,	2004	2003 (A)
Revenues		
Net client fees and insurance reimbursements	\$ 18,971,590	\$ 18,204,044
Grant revenue	-	30,563
Other	1,167,611	1,396,406
Total operating revenues	20,139,201	19,631,013
Expenses		
Personnel expenses	23,913,697	22,805,539
Staff development expenses	117,527	170,144
Facility expenses	2,483,595	2,295,361
Equipment/supplies expenses	1,311,674	1,436,884
Travel expenses	536,403	488,179
Professional services/purchase of services	773,945	924,126
Family and client support/child day care	804,057	753,054
Contract program expenses	2,045,906	2,021,081
Acute inpatient care	3,849,016	-
Miscellaneous expenses	386,741	415,934
Depreciation and amortization	636,755	673,891
Total operating expenses	36,859,316	31,984,193
Operating loss before non-operating income (expense)	(16,720,115)	(12,353,180)
Non-operating income (expense)		
Appropriations:		
Commonwealth of Virginia	13,022,421	8,664,412
Federal Government	2,995,739	2,452,523
Local governments	2,411,012	2,368,220
Interest income	44,986	34,855
Interest expense	(415,777)	(426,118)
	18,058,381	13,093,892
Change in net assets	1,338,266	740,712
Net assets - beginning of year	3,411,552	2,670,840
Net assets - end of year	\$ 4,749,818	\$ 3,411,552

(A) As restated

The accompanying notes are an integral part of these financial statements.

Hampton-Newport News Community Services Board**Statements of Cash Flows**

Years Ended June 30,	2004	2003 (A)
Cash flows from operating activities		
Receipts from customers and users	\$ 19,156,430	\$ 18,971,997
Payments to suppliers	(12,670,637)	(8,131,263)
Payments to employees	(23,781,510)	(23,033,595)
Net cash from operating activities	(17,295,717)	(12,192,861)
Cash flows from noncapital financing activities		
Government appropriations	18,819,629	14,350,711
Due from affiliates	(608,454)	(8,344)
Net cash from noncapital financing activities	18,211,175	14,342,367
Cash flows from capital and related financing activities		
Purchase of property and equipment	(311,348)	(1,486,260)
Increase in escrow deposit	-	(6,000)
Changes in security deposits	3,395	395
Increase in financing costs	(34,592)	-
Proceeds from long-term debt	2,250,000	-
Principal payments on long-term debt	(385,014)	(518,066)
Interest payments on debt	(415,777)	(426,118)
Principal payments on long-term capital lease	(135,166)	(158,290)
Increase (decrease) in note payable - bank	(1,450,000)	1,250,000
Increase in note receivable	(316,017)	-
Net cash from capital and related financing activities	(794,519)	(1,344,339)
Cash flows from investing activities		
Interest received on cash and short-term investments	44,986	34,855
Net change in cash and cash equivalents	165,925	840,022
Cash and cash equivalents - beginning of year	1,619,483	779,461
Cash and cash equivalents - end of year	\$ 1,785,408	\$ 1,619,483
Supplemental schedule of noncash investing and financing activity		
Property acquired by note payable - bank	\$ 9,399,537	\$ -

(A) As restated

The accompanying notes are an integral part of these financial statements.

Hampton-Newport News Community Services Board**Statements of Cash Flows**

Years Ended June 30,	2004	2003 (A)
Reconciliation of operating loss to net cash from operating activities		
Operating loss before non-operating income (expense)	\$ (16,720,115)	\$ (12,353,180)
Adjustments to reconcile to net cash and cash equivalents from operating activities:		
Depreciation and amortization	636,755	673,891
Change in:		
Accounts receivable	(1,128,200)	(659,015)
Inventory	(11,366)	8,030
Prepaid expenses	81,400	(24,535)
Accounts payable	(113,506)	249,242
Accrued expenses	(40,685)	(87,294)
Net cash from operating activities	\$ (17,295,717)	\$ (12,192,861)

(A) As restated

The accompanying notes are an integral part of these financial statements.

Hampton-Newport News Community Services Board

Notes to Financial Statements

June 30, 2004 and 2003

1. Description of Agency

Reporting Entity

The ***Hampton-Newport News Community Services Board*** (CSB) operates as an agent for the cities of Hampton and Newport News, Virginia in the establishment and operation of community mental health, mental retardation and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the *Code of Virginia* (1950), as amended, relating to the Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services. In addition, the CSB provides a system of community mental health, mental retardation and substance abuse services that relate to, and are integrated with, existing and planned programs. The CSB Board of Directors is composed of 15 members appointed by the City Councils of Hampton and Newport News.

Blended Component Units

Following are the descriptions of legally separate component units for which the CSB is financially accountable that are blended with the CSB. The governing bodies of these component units are substantially the same as the CSB. Additionally, detailed information or separately issued financial statements for these component units can be obtained from the CSB's Director of Financial Services.

The ***Hampton-Newport News Community Services Board Property Company, Inc.*** (Property Company) was organized as a nonprofit organization for the purpose of aiding the CSB in assisting the Virginia mentally handicapped by acquiring real estate for subsequent use by the CSB.

The ***Share-A-Homes of the Virginia Peninsula, Inc.*** (SAH) was organized in 1981 as a nonprofit organization. The purpose of SAH is provide low-cost housing and other facilities for individuals over age 65 that are physically incapable of free movement and the mentally handicapped of all ages for the benefit of the CSB. The facilities center around a family-like environment while providing assistance in the education, recreation, health and welfare of the mentally handicapped.

2. Summary of Significant Accounting Policies

Implementation of New Accounting Standard

The CSB has adopted the provisions of Governmental Accounting Standards Board No. 39, *Determining Whether Certain Organizations are Component Units*. This statement amends GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the CSB should report as a component unit based on the nature and significance of their relationship with the CSB. Generally, it requires reporting, as a component unit, any organization that raises and holds economic resources for the direct benefit of the CSB. Accordingly, the operations of the Property Company and SAH have been blended with CSB. The financial statements for the year ended June 30, 2003 have been restated to show the financial information of the new reporting entity.

2. Summary of Significant Accounting Policies (Continued)

Enterprise Fund Accounting

The CSB is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the CSB utilizes the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

Basis of Accounting

The financial statements of the CSB have been prepared on the accrual basis of accounting as required by accounting principles generally accepted in the United States of America for governmental health care reporting entities.

Budgets and Budgetary Accounting

The CSB's annual budget is a management tool that assists users in analyzing financial activity for its fiscal year ending June 30. The CSB's largest funding source is fee-for-service payments, primarily from Medicaid and other insurers. Federal, state and local appropriations are also significant revenue sources that have periods that may or may not coincide with the CSB's fiscal year. These appropriations normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months.

Because of the CSB's dependency on uncertain fee revenues and on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The CSB's annual budget differs from that of a local government due to the uncertain nature of fee-for-service payments from other payers.

The resultant annual budget is subject to constant change within the fiscal year due to:

- The extent to which fee revenues are realized;
- Increases/decreases in actual appropriation from those estimated;
- Unanticipated appropriations not included in the budget; and
- Expected appropriations that fail to materialize.

The Board of Directors formally approves the annual budget but greater emphasis is placed on complying with the fee-for-service, insurance reimbursements and appropriations. As a result, the CSB also conducts a mid-year budget review process based on actual revenues and expenditures. The Board of Directors formally approved a revised annual budget.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the CSB considers all highly liquid investments with a remaining maturity of three months or less when purchased to be cash equivalents.

Bad Debts

The CSB evaluates its accounts receivables using historical data and, in certain cases, specific accounts analysis. A charge to income to absorb possible credit losses is provided when, in the opinion of management, it is appropriate.

2. Summary of Significant Accounting Policies (Continued)

Inventory

Inventory is stated at cost, not in excess of market value. Inventory consists of office supplies and materials.

Net Client Fees and Insurance Reimbursements

Net client fees and insurance reimbursements are reported at the net realizable amounts from clients, third party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

Capital Assets

Capital assets are stated at cost. The estimated useful lives of capital assets are as follows:

	<u>Years</u>
Buildings and improvements	30
Land improvements	15
Office furniture and equipment	3 - 5
Vehicles	5

Taxes

As an agency of the cities of Hampton and Newport News, which are political subdivisions of the Commonwealth of Virginia, the CSB is exempt from sales, meals and federal and state income taxes.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures and disclosure of contingent assets and liabilities for the reported periods. Actual results could differ from those estimates and assumptions.

Advertising

Advertising costs are charged to operations when incurred.

Risk Management

The CSB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The CSB purchases commercial insurance for all risks of loss noted above.

Financing Costs

Financing costs are being amortized by the effective interest method over the terms of the loan of 10-20 years.

3. Cash And Investments

Deposits

At June 30, 2004 and 2003, the carrying values of the CSB's deposits with banks and savings institutions were \$8,364 and \$(358,205), respectively, and the bank balance was \$352,718 and \$107,113, respectively. The bank balances were covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loans institutions are required to collateralize 100% of the deposits in excess of FDIC limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes; banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). LGIP is managed in accordance with the risk limiting requirements of GASB Statement No. 31 *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, with portfolio securities valued by the amortized cost method. Investments with a maturity of one year or less are stated at amortized cost. All other investments are stated at fair value.

Investments are categorized below to give an indication of the level of risk assumed by the CSB at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the CSB, or its safekeeping agent in the CSB's name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer's trust department or safekeeping agent in the CSB's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the CSB's name.

At June 30, 2004 and 2003, the CSB's investment balances were as follows:

June 30, 2004:

	1	2	3	Carrying Amount	Market Value
Repurchase agreements	\$ -	\$ 1,705,824	\$ -	\$ 1,705,824	\$ 1,705,824
Investment not subject to categorization:					
Investment in State Treasurer's Local Government Investment Pool (LGIP)				71,220	71,220
Total deposits				8,364	8,364
				<u>\$ 1,785,408</u>	<u>\$ 1,785,408</u>

3. **Cash and Investments (Continued)**

June 30, 2003:

	1	2	3	Carrying Amount	Market Value
Repurchase agreements	\$ -	\$ 1,907,305	\$ -	\$ 1,907,305	\$ 1,907,305
Investment not subject to categorization:					
Investment in State Treasurer's Local Government Investment Pool (LGIP)				70,383	70,383
Total deposits				(358,205)	(358,205)
				<u>\$ 1,619,483</u>	<u>\$ 1,619,483</u>

4. **Due from Affiliate**

Due from affiliate, with no set repayment terms or interest rate was from the HNNCSB Health Plan Trust. As of June 30, 2004 and 2003, amounts owed to the CSB were \$100,114 and \$406,226, respectively.

5. **Note Receivable**

Note receivable represents an agreement between the CSB and Oyster Point Academy for providing Individual Medical Psychotherapy and Therapeutic Day Treatment Services for students at Oyster Point Academy. The amount due of \$316,017 is to be repaid in equal quarterly installments plus 5% interest beginning July 1, 2004. The note is set to mature on July 1, 2009.

6. **Capital Assets**

A summary of capital assets at June 30, 2004 and 2003, is as follows:

	Balance June 30, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets not being depreciated				
Land	\$ 979,117	\$4,035,000	\$ -	\$ 5,014,117
Construction in progress	100,680	2,032,904	(100,680)	2,032,904
Total	<u>1,079,797</u>	<u>6,067,904</u>	<u>(100,680)</u>	<u>7,047,021</u>
Other capital assets				
Buildings and improvements	9,983,172	353,709	-	10,336,881
Land improvements	-	3,360,727	-	3,360,727
Office furniture and equipment	1,810,127	6,003	-	1,816,130
Vehicles	1,236,043	23,224	-	1,259,267
Total	<u>13,029,342</u>	<u>3,743,663</u>	<u>-</u>	<u>16,773,005</u>
Less - accumulated depreciation				
Buildings and improvements	2,644,283	453,014	-	3,097,297
Land improvements	-	19,039	-	19,039
Office furniture and equipment	1,591,898	79,568	-	1,671,466
Vehicles	1,003,914	80,934	-	1,084,848
Total	<u>5,240,095</u>	<u>632,555</u>	<u>-</u>	<u>5,872,650</u>
	<u>\$ 8,869,044</u>	<u>\$9,179,012</u>	<u>\$ (100,680)</u>	<u>\$17,947,376</u>

7. Local Revenues

Local revenues for the year ended June 30, 2004 and 2003, consist of the following:

	2004	2003
City of Hampton	\$ 1,265,395	\$ 1,222,603
City of Newport News	1,145,617	1,145,617
	<u>\$ 2,411,012</u>	<u>\$ 2,368,220</u>

8. Deferred Revenue

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. This represents a liability incurred by the CSB for monies accepted from a grantor using the advance method for payments. The liability is reduced and revenue recorded when expenses are made in accordance with the grantor's requirements. If expenses are not made, the funds may revert to the grantor.

At June 30, 2004 and 2003, deferred revenue consists of the following:

	2004	2003 (A)
State revenue:		
Family/individual support	\$ 72,520	\$ 35,356
Mental health grants	228,983	1,034,434
Substance abuse grants	-	68,999
Federal revenue:		
Mental health grants	30,000	7,425
Substance abuse grants	110,815	43,319
Other	78,183	-
	<u>\$ 520,501</u>	<u>\$ 1,189,533</u>

9. Construction in Process

The CSB is expanding its facilities. Construction of four shell buildings and related site improvements at the property known as Hampton Medical Center has begun. The anticipated completion date is March 2005. The CSB has entered into a construction contract for this expansion in which it is obligated to pay \$3,886,875. Total payments on this construction contract for 2004 were \$565,127. As of June 30, 2004, current commitments on the contract are \$3,321,748.

10. Notes Payable - Bank

The CSB has a working capital line-of-credit of \$1,500,000 (\$1,000,000 prior to January 2003), which expires in January 2005. Advances on the line-of-credit are collateralized by a general blanket assignment of all accounts, contracts or other receivables and proceeds. Interest on advances is payable at the monthly London Interbank Offered Rate (LIBOR) plus 165 basis points. As of June 30, 2004 and 2003, the CSB had borrowed \$-0- and \$1,450,000, respectively, against this line-of-credit.

10. Note Payable – Bank (Continued)

The Property Company also has a working capital line-of-credit of \$11,000,000, which expires on December 31, 2004. Advances on the line-of-credit are collateralized by all property, estate, right, title, and interest now owned or hereinafter acquired at the property known as Hampton Medical Center in Hampton, Virginia. Interest on advances is payable at a variable rate equal to 30-day LIBOR plus 2.50%. As of June 30, 2004, the Property Company had borrowed \$9,399,527 against the line-of-credit.

11. Long-Term Debt

A detail of long-term debt at June 30, 2004 and 2003, is as follows:

	<u>Balance</u> <u>June 30, 2003</u>	<u>Additions</u> <u>(Deductions)</u>	<u>Balance</u> <u>June 30, 2004</u>
Nonrecourse note payable to bank in monthly installments of \$24,516, including interest at 6.08%, maturing February 2015. The note contains a call provision at each five year anniversary which presently is October 2009. The note is collateralized by a first priority deed of trust on real property located at 2501 Washington Avenue, Newport News, Virginia and assignment of lease payments by the CSB.	\$ 2,444,977	\$ (149,250)	\$ 2,295,727
Note payable to bank due in monthly installments of \$3,144, including interest at 2.76%, maturing October 2008. The note is collateralized by a first priority deed of trust on real property located at 2501 Washington Avenue, Newport News, Virginia and assignment of lease payments by the CSB.	381,203	(27,380)	353,823
Note payable to bank due in monthly installments of \$5,827, including interest at 7.82%, maturing November 2019. The note is collateralized by a first priority deed of trust on real property located at 13365 Warwick Boulevard, Newport News, Virginia and assignment of lease payments by the CSB.	640,495	(19,705)	620,790
Note payable to bank due in monthly principal installments of \$1,200, plus interest at the Eurodollar daily floating rate plus 175 basis points, maturing January 2011. The note is collateralized by a first deed of trust on real property located at 638 J. Clyde Morris Blvd., Newport News, Virginia and assignment of lease payments by the CSB.	397,200	(14,400)	382,800
Totals (carried forward)	\$ 3,863,875	\$ (210,735)	\$ 3,653,140

11. Long-Term Debt (Continued)

	Balance June 30, 2003	Additions (Deductions)	Balance June 30, 2004
Totals (brought forward)	\$ 3,863,875	\$ (210,735)	\$ 3,653,140
Note payable to bank due in monthly principal installments of \$1,666, plus interest at the one month London Interbank Offered Rate (LIBOR) plus 175 basis points, maturing January 2011. The note is collateralized by a first deed of trust on real property located at 1664 Briarfield Road, Newport News, Virginia and assignment of lease payments by the CSB.	358,333	(20,000)	338,333
Note payable to bank due in monthly installments of \$6,064, including interest equivalent to 64% of the one month LIBOR plus 231 basis points, maturing January 2011. The note is collateralized by a first priority deed of trust on real property located at 1664 Briarfield Road, Newport News, Virginia and assignment of lease payments by the CSB.	757,821	(21,739)	736,082
Note payable to bank due in monthly principal installments of \$5,000, plus interest at a variable rate equal to 30-day LIBOR, plus 150 basis points, maturing July 1, 2013 with a balloon payment for the remaining balance due at that time. The note is collateralized by a first priority deed of trust on real property located at 2501 Washington Avenue, Newport News, Virginia and assignment of lease payments by the CSB.	-	1,145,000	1,145,000
Note payable due in monthly installments of \$2,334, including interest at 8.00%, maturing July 2014; collateralized by property known as Aberdeen Gardens and assignment of lease payments by the CSB. This note was refinanced with new debt in 2004.	207,321	(207,321)	-
Note payable due in monthly installments of \$1,784, including interest at 7.15%, maturing May 2008; collateralized by property known as Cornerstone and assignment of lease payments by the CSB. This note was refinanced with new debt in 2004.	87,974	(87,974)	-
Totals (carried forward)	\$ 5,275,324	\$ 597,231	\$ 5,872,555

11. Long-Term Debt (Continued)

	Balance June 30, 2003	Additions (Deductions)	Balance June 30, 2004
Totals (brought forward)	\$ 5,275,324	\$ 597,231	\$ 5,872,555
Note payable due in monthly installments of \$1,203, including interest at 8.00%, maturing November 2003; collateralized by property known as Aberdeen Gardens and assignment of lease payments by the CSB. This note was refinanced with new debt in 2004.	100,016	(100,016)	-
Note payable due in monthly installments of \$5,743, including interest at prime plus 1.25%, maturing May 2014; collateralized by property known as Grist Mill, Cornerstone and Aberdeen Gardens and assignment of lease payments by the CSB.	-	529,986	529,986
Note payable due in monthly installments of \$1,446, including interest at 7.25%, maturing June 2004; collateralized by property known as Grist Mill and assignment of lease payments by the CSB. This note was refinanced with new debt in 2004.	164,090	(164,090)	-
Note payable due in monthly principal installments of \$4,375, plus interest at a variable rate equal to 30-day LIBOR plus 150 basis points, maturing July 2013 with a balloon payment for the remaining balance due at that time; collateralized by property known as Brogden, Terrace and Conway and assignment of lease payments by the CSB. The note has financial covenants which, at June 30, 2004, SAH was either in compliance with or had received waivers thereon.	-	1,001,875	1,001,875
	5,539,430	1,864,986	7,404,416
Less - current portion	(545,624)		(421,715)
	<u>\$ 4,993,806</u>		<u>\$ 6,982,701</u>

Principal and interest payments on long-term debt for succeeding years are as follows:

Year	Principal	Interest
2005	\$ 421,715	\$ 362,342
2006	438,171	341,044
2007	455,654	318,718
2008	474,060	295,418
2009	695,529	266,995
2010 - 2014	4,440,148	707,148
2015 - 2019	458,624	69,250
2020 - 2024	20,515	147
	<u>\$ 7,404,416</u>	<u>\$ 2,361,062</u>

12. Defined Benefit Pension Plan

a) Plan Description

The CSB contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS.

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 with five years of service for participating local law enforcement officers and firefighters) or at age 50 with at least 30 years of service if elected by the employer (age 50 with 25 years for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final salary (AFS) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement. AFS is defined as the highest consecutive 36 months of salary. Participating law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to VRS at P.O. Box 2500, Richmond, VA 23218-2500.

b) Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution has been assumed by the CSB. In addition, the CSB is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The CSB's contribution rates for the years ended June 30, 2004 and 2003, were 3.0% of covered payroll.

c) Annual Pension Cost

For the years ended June 30, 2004 and 2003, the CSB's annual pension cost of \$422,926 and \$408,479, respectively, was equal to the CSB's required and actual contributions. The required contributions were determined as part of the June 30, 2001, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of 8%, (b) projected salary increases ranging from 4.25% to 6.10%, and (c) cost-of-living adjustments of 3.0%. Both (a) and (b) included an inflation component of 3%. The actuarial value of the CSB's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

12. Defined Benefit Pension Plan (Continued)

d) Schedule of Employer Contributions

Year Ending June 30,	Annual Pension Costs	Percentage of Annual Pension Cost Contributed	Net Pension Obligation
2004	\$ 422,926	100%	\$ -
2003	\$ 408,479	100%	\$ -
2002	\$ 500,840	100%	\$ -

e) Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Overfunded Actuarial Accrued Liability	Funded Ratio	Annual Covered Payroll	Overfunded Actuarial Accrued Liability as Percentage of Payroll
June 30, 2003	\$ 16,408,625	\$ 12,205,066	\$ 4,203,559	134.4%	\$ 13,615,967	30.9%
June 30, 2002	\$ 14,836,834	\$ 11,114,849	\$ 3,721,985	133.5%	\$ 12,521,000	29.8%
June 30, 2001	\$ 13,184,625	\$ 9,738,769	\$ 3,445,856	135.4%	\$ 12,018,600	28.7%

f) Notes to Schedules of Employer Contributions and Funding Progress

The information presented in the schedules of employer contributions and funding progress was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2003
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, open
Payroll growth rate	3%
Remaining amortization period	11 years
Asset valuation method	Modified market
Actuarial assumptions:	
Investment rate of return ¹	8.00%
Projected salary increases ¹	4.25% to 6.10%
Cost-of-living adjustments	3.00%

¹ Includes inflation at 3%

13. **Compensated Absences**

Each employee earns vacation, compensatory leave, overtime leave and sick leave in accordance with CSB policy. At termination or retirement, employees will be paid for all vacation and overtime up to 160 hours. Compensatory leave has been combined with the employees' vacation balances. At June 30, 2004 and 2003, the CSB has accruals of \$856,451 and \$833,172, respectively, for compensated absences. At June 30, 2004 and 2003, these amounts were reflected in the statements of net assets under current liabilities as part of accrued expenses in the amount of \$68,516 and \$66,654, respectively, and long-term liabilities - accrued expenses - vacation of \$787,935 and \$766,518, respectively. Upon termination, employees are not vested in accrued sick leave; therefore, no accrual is required in the accompanying financial statements.

14. **Miscellaneous Expenses**

The miscellaneous expenses for the years ended June 30, 2004 and 2003, consist of the following:

	2004	2003
Advertising	\$ 48,214	\$ 26,079
Liability insurance	38,836	38,836
Other program expense	112,382	185,319
Postage and printing	60,551	61,075
Recruiting	126,758	104,625
	\$ 386,741	\$ 415,934

15. **Trust Fund for Disabled People**

On May 18, 1995, the CSB established the Hampton-Newport News Community Services Board Trust for Disabled People (Trust). The CSB, as Trustee, is responsible for administering the Trust, which is available to any beneficiary, as defined in the Trust. Under the Trust, beneficiaries may elect to contribute cash or property for the Trustee to hold, retain, invest, reinvest or manage.

The Trustee, in its sole discretion, may make any payment under the Trust either (a) directly to a beneficiary, (b) in any form allowed by law, (c) to any person deemed suitable by the Trustee, or (d) by direct payment of a beneficiary's expenses. As part of its fiduciary responsibility, the CSB has an obligation of due care in administering the Trust, and, in the opinion of the CSB's legal counsel, the CSB has acted in a prudent manner. The asset and liability for the Trust is recorded in the CSB's statements of net assets.

16. **Commitments and Contingencies**

Leases

The CSB leases various facilities and equipment under operating agreements. Lease expenditures under operating leases included in facility expenses for 2004 and 2003, amount to \$921,767 and \$798,690, respectively.

16. Commitments and Contingencies (Continued)

Leases (Continued)

A summary of future minimum rental payments under noncancellable operating leases as of June 30, 2004, is as follows:

2005	\$ 700,086
2006	697,963
2007	665,675
2008	542,031
2009	545,263
	<hr/>
	\$ 3,151,018

Capital Leases

The CSB leases a copier, computer equipment and vehicles from a third party. The lease obligation has been recorded in the accompanying financial statements at the present value of future minimum lease payments. The capitalized cost of the assets was \$472,080, less accumulated amortization of \$296,184 and \$201,768, respectively, as of June 30, 2004 and 2003, and is included in capital assets in the accompanying financial statements. Minimum future lease payments and the present value of minimum future lease payments for years ending June 30, are as follows:

2005	\$ 8,960
Less - imputed interest	(127)
Present value of minimum	<hr/>
future lease payments	8,833
Less - current portion	(8,833)
Long-term portion	<hr/>
	\$ -

Self-Insurance

The CSB sponsors self-insured medical, dental and short-term disability benefit plans for its employees. The medical plan pays all claims up to \$75,000 per covered person per year. Any claims exceeding \$75,000 per covered person per year are paid by specific stop-loss insurance provided by a third-party insurance company. Aggregate claims in excess of 125% of expected claims, as determined by the reinsurance underwriter, are also paid by a third-party insurance company. All premiums paid by the CSB related to the plan are recorded as expenses.

Federally Assisted Grant Programs

The CSB participates in a number of federally assisted grant programs. Although the CSB has been audited in accordance with the provisions of OMB Circular A-133, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the CSB believes such disallowances, if any, will not be significant.

17. Reconciliation of Revenues and Expenses Per Audit to the Fourth Quarter State Report (Unaudited)

	<u>Administration</u>	<u>Mental Health</u>	<u>Mental Retardation</u>	<u>Substance Abuse</u>	<u>Total</u>
Revenues					
Revenues - 4th quarter state report summary dated December 2, 2004	\$ -	\$ 18,377,426	\$ 12,296,880	\$ 8,101,649	\$ 38,775,955
Accruals/adjustments:					
Admin. no longer in 4th quarter report	485,440	(230,069)	(153,946)	(101,425)	-
Reclass of revenue from MH to SA	-	385,221	-	(385,221)	-
SA SIG funds passed thru to alternatives	-	-	-	(192,190)	(192,190)
SA SIG funds accrual vs. paid	-	-	-	135,314	135,314
Revenue posted after 4th quarter	-	183,661	188,885	-	372,546
Deferred revenue	-	(258,983)	(72,520)	(110,815)	(442,318)
Retained earnings	32,923	-	-	-	32,923
Total revenues per audit report	\$ 518,363	\$ 18,457,256	\$ 12,259,299	\$ 7,447,312	\$ 38,682,230

	<u>Administration</u>	<u>Mental Health</u>	<u>Mental Retardation</u>	<u>Substance Abuse</u>	<u>Total</u>
Expenses					
Expenses - 4th quarter state report summary dated December 2, 2004	\$ -	\$ 18,118,443	\$ 12,173,045	\$ 7,749,413	\$ 38,040,901
Accruals/adjustments:					
Admin. no longer in 4th quarter report	537,791	(256,144)	(172,092)	(109,555)	-
SA SIG funds accrual vs. paid	-	-	-	135,314	135,314
SA SIG fund passed thru to alternatives	-	-	-	(192,190)	(192,190)
Reclass of expenses from SA and MR to MH	-	435,656	(141,301)	(294,355)	-
Reduction in accrued expense after 4th quarter	-	(234,081)	(157,270)	(100,119)	(491,470)
Total expenses per audit report	\$ 537,791	\$ 18,063,874	\$ 11,702,382	\$ 7,188,508	\$ 37,492,555

18. Reconciliation of Federal Revenues Per Audit to the Fourth Quarter State Report (Unaudited)

	<u>Administration</u>	<u>Mental Health</u>	<u>Mental Retardation</u>	<u>Substance Abuse</u>	<u>Total</u>
Revenues					
4th quarter state report summary dated December 2, 2004	\$ -	\$ 406,499	\$ 130,107	\$ 2,395,376	\$ 2,931,982
Accruals/adjustments:					
Daycare cash basis					-
Daycare accrual basis	-	-	130,107	-	130,107
SA SIG funds accrual vs. paid	-	-	(126,802)	-	(126,802)
SIG funds pass-thru to alternatives	-	(15,770)		135,314	119,544
Safe Harbors accrual vs. paid	-	44,986		(192,190)	(147,204)
Reconciliation of USDA prior year	-	(85,234)		-	(85,234)
Other Federal CSB understated	173,346			-	173,346
Per audit report	\$ 173,346	\$ 350,481	\$ 133,412	\$ 2,338,500	\$ 2,995,739

Expended revenue included in Schedule of Expenditures of Federal Awards:

Deferred revenue - July 1, 2003	\$ 50,774
Revenue collected	3,157,058
Safe Harbors accrual vs. paid	15,770
SIG Pass-thru to Alternatives	(192,190)
SIG Cash vs. accrual	135,314
USDA Reconciliation	44,986
06/30/03 Daycare due CSB	(40,533)
06/30/04 Daycare due CSB	43,558
Deferred revenue - June 30, 2004	(218,998)
Total federal expenditures per audit report	\$ 2,995,739

19. Capitalized Interest

During 2004, the CSB incurred \$31,777 in interest costs which have been capitalized to construction in process.

20. Prior Period Adjustment

The accompanying financial statements for June 30, 2003 have been restated to correct an error in failing to appropriately recognize deferred revenue for June 30, 2003. The effect of the restatement was to increase change in net assets for June 30, 2003 by \$280,683.

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Supplementary Information

Hampton-Newport News Community Services Board

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2004

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
Department of Agriculture		
Child and Adult Care Food Program (CACFP)	10.558	\$ 117,370
Department of Health and Human Services		
Projects for Assistance in Transition to Homeless (PATH)	93.150	89,082
SIG	93.230	167,957
Child Care Block Grant	93.575	130,107
Mental Health Block Grant	93.958	185,619
SA Prevention and Treatment Block Grant (SAPT)*	93.959	1,892,123
Federal Regular Services - Isabel	93.982	18,041
Federal Immediate Services Project Rebound	97.032	89,150
Department of Housing and Urban Development		
Safe Harbors	14.235	100,737
		<u>\$ 2,790,186</u>

* Major Federal Program

Note: All federal awards from the Department of Health and Human Services are passed through from the Commonwealth of Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services.

Hampton-Newport News Community Services Board

Notes to Schedule of Expenditures of Federal Awards

June 30, 2004

1. General

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the ***Hampton-Newport News Community Services Board*** (CSB).

Federal awards not received through direct programs are passed through departments and agencies of the Commonwealth of Virginia.

2. Basis of Accounting

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

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Hampton-Newport News Community Services Board

*Schedule of Insurance
(Compiled - Unaudited)*

Year Ended June 30, 2004

Coverage	Company/Agent	Policy #	Period	Limits of Liability	Deductible	Premium
Real & Personal Property	Philadelphia Insurance Company	PHPK052708	6/26/03 to 6/26/04	\$8,195,000 - Blanket Building 2501 Washington Avenue \$5,148,000 Blanket Building All Other Locations \$3,034,890 Blanket Contents All Locations	\$500	\$42,224
Boiler and Machinery	Philadelphia Insurance Company	PHPK052708	6/26/03 to 6/26/04	\$1,000,000 - Limit of Insurance Property Damage \$25,000 - Extra Expense \$25,000 - Expediting Expense Limit \$25,000 - Water Damage Limit	\$500	*
Electronic Data Processing	Philadelphia Insurance Company	PHPK052708	6/26/03 to 6/26/04	\$832,345 - Blanket Hardware and Media \$25,000 - Extra Expense	\$250 Except Mechanical Breakdown	\$3,215
Business Auto	Philadelphia Insurance Company	PHPK052708	6/26/03 to 6/26/04	\$1,000,000 - Combined Single Limit Bodily Injury - Property Damage Each Accident Owned - Leased, Hired and Non-Owned Autos \$1,000,000 - Uninsured Motorist Coverage - Per Accident \$2,000 - Medical Expenses & Income Loss Benefits	\$500 Comprehensive \$1000 Collision	\$72,990
Worker's Compensation	Liberty Mutual Ins Co	WC535S333771	6/26/03 to 6/26/04	\$100,000 - Bodily Injury by Accident / Each Accident \$100,000 - Bodily Injury by Disease / Each Employee \$500,000 - Bodily Injury by Disease / Each Aggregate Limit		\$113,208 Subject to Audit
General Liability	Commonwealth of Virginia Department of General Services Division of Risk Management	G99012	7/1/03 to 6/30/04	\$1,000,000 - Per Claim with No Aggregate \$1,600,000 - Medical Malpractice	\$1,000	\$38,836
Money & Securities	Philadelphia Insurance Company	PHPK052708	6/26/03 to 6/26/04	\$25,000 - Depositors Forgery \$25,000 - Theft of Monies and Securities - inside \$25,000 - Theft of Monies and Securities - outside \$500,000 - Public Employees Dishonesty Bond	\$250 \$250 \$250 \$1,000	\$1,314
Employee Dishonesty						
Excess Liab	Philadelphia Insurance	PHUB019857	6/26/03 to 6/26/04	\$1,000,000 - Excess Automobile & Employers Liability		\$6,396

* Included in Real & Personal Property Premium.

Hampton-Newport News Community Services Board

**Schedule of Insurance
(Compiled - Unaudited)**

Year Ended June 30, 2003

Coverage	Company/Agent	Policy #	Period	Limits of Liability	Deductible	Premium
Real & Personal Property	Philadelphia Insurance Company	PHPK027067	6/26/02 to 6/26/03	\$8,195,000 - Blanket Building 2501 Washington Avenue \$4,297,500 - Blanket Building All Other Locations \$3,147,660 - Blanket Contents All Locations	\$500	\$29,010
Boiler and Machinery	Philadelphia Insurance Company	PHPK027067	6/26/02 to 6/26/03	\$1,000,000 - Limit of Insurance Property Damage \$25,000 - Extra Expense \$25,000 - Expediting Expense Limit \$25,000 - Water Damage Limit	\$500	*
Electronic Data Processing	Philadelphia Insurance Company	PHPK027067	6/26/02 to 6/26/03	\$828,945 - Blanket Hardware and Media \$25,000 - Extra Expense	\$250	Except Mechanical Breakdown \$1,832
Business Auto	Philadelphia Insurance Company	PHPK027067	6/26/02 to 6/26/03	\$1,000,000 - Combined Single Limit Bodily Injury - Property Damage Each Accident Owned - Leased, Hired and Non-Owned Autos \$1,000,000 - Uninsured Motorist Coverage - Per Accident \$2,000 - Medical Expenses & Income Loss Benefits	\$500 \$1,000	Comprehensive Collision \$77,626
Worker's Compensation	Liberty Mutual Ins Co	WC535S3337	6/26/02 to 6/26/03	\$100,000 - Bodily Injury by Accident / Each Accident \$100,000 - Bodily Injury by Disease / Each Employee \$500,000 - Bodily Injury by Disease / Each Aggregate Limit		\$106,906 Subject to Audit
General Liability	Commonwealth of Virginia Department of General Services Division of Risk Management	G99012	7/1/02 to 6/30/03	\$1,000,000 - Per Claim with No Aggregate \$1,600,000 - Medical Malpractice	\$1,000	\$38,836
Money & Securities	Philadelphia Insurance Company	PHPK027067	6/26/02 to 6/26/03	\$25,000 - Depositors Forgery \$25,000 - Theft of Monies and Securities - inside \$25,000 - Theft of Monies and Securities - outside \$500,000 - Public Employees Dishonesty Bond	\$250 \$250 \$250 \$1,000	\$988
Excess Liability	Philadelphia Insurance Company	PHUB010686	6/26/02 to 6/26/03	\$1,000,000 - Excess Automobile & Employers Liability		\$5,704

* Included in Real & Personal Property Premium.

Hampton-Newport News Community Services Board

Combining Schedule - Statements of Net Assets

Year Ended June 30, 2004

	Hampton-Newport News Community Services Board	Hampton-Newport News Community Services Board Property Company, Inc.	Share-A-Homes of the Virginia Peninsula	Eliminations	Combined
Assets					
Current assets					
Cash and cash equivalents	\$ 1,457,640	\$ 181,475	\$ 146,293	\$ -	\$ 1,785,408
Accounts receivable:					
Grants and contracts	1,850,896	-	-	-	1,850,896
Medicaid/Medicare	1,928,510	-	-	-	1,928,510
Other	9,958	-	-	-	9,958
Due from affiliates	153,789	457,283	-	(510,958)	100,114
Inventory	18,947	-	-	-	18,947
Prepaid expenses	12,422	-	-	-	12,422
Current maturities for notes receivable	63,203	-	-	-	63,203
Total current assets	5,495,365	638,758	146,293	(510,958)	5,769,458
Restricted assets - cash held for trust beneficiaries	75,811	-	-	-	75,811
Capital assets - less accumulated depreciation	1,163,159	14,952,987	1,831,230	-	17,947,376
Note receivable - less current maturities	252,814	-	-	-	252,814
Escrow deposit	-	6,000	-	-	6,000
Financing costs - net	-	57,175	8,243	-	65,418
Security deposits	19,745	-	-	-	19,745
Total assets	\$ 7,006,894	\$ 15,654,920	\$ 1,985,766	\$ (510,958)	\$ 24,136,622
Liabilities and Net Assets					
Current liabilities					
Note payable - bank	-	\$ 9,399,537	\$ -	-	\$ 9,399,537
Current portion of long-term debt	-	327,510	94,205	-	421,715
Current portion of obligations under capital leases	8,833	-	-	-	8,833
Accounts payable	393,128	-	-	-	393,128
Accrued expenses	764,866	31,777	-	-	796,643
Deferred revenue	520,501	-	-	-	520,501
Due to affiliates	457,283	-	53,675	(510,958)	-
Total current liabilities	2,144,611	9,758,824	147,880	(510,958)	11,540,357
Long-term liabilities					
Due to trust beneficiaries	75,811	-	-	-	75,811
Accrued expense - vacation	787,935	-	-	-	787,935
Long-term debt - less current portion	-	5,545,045	1,437,656	-	6,982,701
Obligations under capital leases - less current portion	-	-	-	-	-
Total long-term liabilities	863,746	5,545,045	1,437,656	-	7,846,447
Total liabilities	3,008,357	15,303,869	1,585,536	(510,958)	19,386,804
Net assets					
Invested in capital assets - net of related debt	697,043	138,178	299,369	-	1,134,590
Unrestricted	3,301,494	212,873	100,861	-	3,615,228
Total net assets	3,998,537	351,051	400,230	-	4,749,818
Total liabilities and net assets	\$ 7,006,894	\$ 15,654,920	\$ 1,985,766	\$ (510,958)	\$ 24,136,622

Hampton-Newport News Community Services Board

Combining Schedule - Statements of Net Assets

Year Ended June 30, 2003

	Hampton-Newport News Community Services Board	Hampton-Newport News Community Services Board Property Company, Inc.	Share-A-Homes of the Virginia Peninsula	Eliminations	Combined
Assets					
Current assets					
Cash and cash equivalents	\$ 1,524,841	\$ 86,052	\$ 8,590	\$ -	\$ 1,619,483
Accounts receivable:					
Grants and contracts	1,202,841	-	-	-	1,202,841
Medicaid/Medicare	1,439,036	-	-	-	1,439,036
Other	14,287	5,000	-	-	19,287
Due from affiliates	1,883,929	-	-	(1,477,703)	406,226
Inventory	7,581	-	-	-	7,581
Prepaid expenses	93,822	-	-	-	93,822
Total current assets	6,166,337	91,052	8,590	(1,477,703)	4,788,276
Restricted assets - cash held for trust beneficiaries	77,360	-	-	-	77,360
Capital assets - less accumulated depreciation	1,391,890	5,838,256	1,638,898	-	8,869,044
Escrow deposit	-	6,000	-	-	6,000
Financing costs - net	-	35,027	-	-	35,027
Security deposits	21,140	2,000	-	-	23,140
Total assets	\$ 7,656,727	\$ 5,972,335	\$ 1,647,488	\$ (1,477,703)	\$ 13,798,847
Liabilities and Net Assets					
Current liabilities					
Note payable - bank	\$ 1,450,000	\$ -	\$ -	\$ -	\$ 1,450,000
Current portion of long-term debt	-	254,050	291,574	-	545,624
Current portion of obligations under capital leases	131,803	-	-	-	131,803
Accounts payable	506,634	-	-	-	506,634
Accrued expenses	713,821	-	-	-	713,821
Deferred revenue	1,189,533	-	-	-	1,189,533
Due to affiliates	-	716,402	761,301	(1,477,703)	-
Total current liabilities	3,991,791	970,452	1,052,875	(1,477,703)	4,537,415
Long-term liabilities					
Due to trust beneficiaries	77,360	-	-	-	77,360
Accrued expense - vacation	766,518	-	-	-	766,518
Long-term debt	-	4,725,979	267,827	-	4,993,806
Obligations under capital leases - less current portion	12,196	-	-	-	12,196
Total long-term liabilities	856,074	4,725,979	267,827	-	5,849,880
Total liabilities	4,847,865	5,696,431	1,320,702	(1,477,703)	10,387,295
Net assets					
Invested in capital assets - net of related debt	1,275,594	141,825	318,196	-	1,735,615
Unrestricted	1,533,268	134,079	8,590	-	1,675,937
Total net assets	2,808,862	275,904	326,786	-	3,411,552
Total liabilities and net assets	\$ 7,656,727	\$ 5,972,335	\$ 1,647,488	\$ (1,477,703)	\$ 13,798,847

(A) As restated

Hampton-Newport News Community Services Board

Combining Schedule - Statements of Revenues and Expenses and Changes in Net Assets

Year Ended June 30, 2004

	Hampton-Newport News Community Services Board	Hampton-Newport News Community Services Board Property Company, Inc.	Share-A-Homes of the Virginia Peninsula	Eliminations	Combined
Revenues					
Net client fees and insurance reimbursements	\$ 18,971,590	\$ -	\$ -	\$ -	\$ 18,971,590
Rental income	-	781,222	230,400	(1,011,622)	-
Other	1,167,611	-	-	-	1,167,611
Total revenues	20,139,201	781,222	230,400	(1,011,622)	20,139,201
Expenses					
Personnel expenses	23,913,697	-	-	-	23,913,697
Staff development expenses	117,527	-	-	-	117,527
Facility expenses	3,495,217	-	-	(1,011,622)	2,483,595
Equipment/supplies expenses	1,311,674	-	-	-	1,311,674
Travel expenses	536,403	-	-	-	536,403
Professional services/purchase of services	738,730	26,415	8,800	-	773,945
Family and client support/child day care	804,057	-	-	-	804,057
Contract program expenses	1,984,861	43,157	17,888	-	2,045,906
Acute inpatient care	3,849,016	-	-	-	3,849,016
Miscellaneous expenses	386,741	-	-	-	386,741
Depreciation and amortization	257,959	317,184	61,612	-	636,755
Total expenses	37,395,882	386,756	88,300	(1,011,622)	36,859,316
Operating income (loss) before non-operating income (expense)	(17,256,681)	394,466	142,100	-	(16,720,115)
Non-operating income (expense)					
Appropriations:					
Commonwealth of Virginia	13,022,421	-	-	-	13,022,421
Federal Government	2,995,739	-	-	-	2,995,739
Local governments	2,411,012	-	-	-	2,411,012
Interest income	33,350	10,670	966	-	44,986
Interest expense	(16,166)	(329,989)	(69,622)	-	(415,777)
Total non-operating income (expense)	18,446,356	(319,319)	(68,656)	-	18,058,381
Change in net assets	1,189,675	75,147	73,444	-	1,338,266
Net assets - beginning of year	2,808,862	275,904	326,786	-	3,411,552
Net assets - end of year	\$ 3,998,537	\$ 351,051	\$ 400,230	\$ -	\$ 4,749,818

Hampton-Newport News Community Services Board

Combining Schedule - Statements of Revenues and Expenses and Changes in Net Assets

Year Ended June 30, 2003

	Hampton-Newport News Community Services Board (A)	Hampton-Newport News Community Services Board Property Company, Inc.	Share-A-Homes of the Virginia Peninsula	Eliminations	Combined
Revenues					
Net client fees and insurance reimbursements	\$ 18,204,044	\$ -	\$ -	\$ -	\$ 18,204,044
Grant revenue	-	30,563	-	-	30,563
Rental income	-	704,324	191,400	(895,724)	-
Other	1,396,406	-	-	-	1,396,406
Total revenues	19,600,450	734,887	191,400	(895,724)	19,631,013
Expenses					
Personnel expenses	22,805,539	-	-	-	22,805,539
Staff development expenses	170,144	-	-	-	170,144
Facility expenses	3,191,085	-	-	(895,724)	2,295,361
Equipment/supplies expenses	1,436,884	-	-	-	1,436,884
Travel expenses	488,179	-	-	-	488,179
Professional services/purchase of services	918,086	4,790	1,250	-	924,126
Family and client support/child day care	753,054	-	-	-	753,054
Contract program expenses	1,977,531	19,165	24,385	-	2,021,081
Miscellaneous expenses	415,934	-	-	-	415,934
Depreciation and amortization	361,450	255,989	56,452	-	673,891
Total expenses	32,517,886	279,944	82,087	(895,724)	31,984,193
Operating income (loss) before non-operating income (expense)	(12,917,436)	454,943	109,313	-	(12,353,180)
Non-operating income (expense)					
Appropriations:					
Commonwealth of Virginia	8,664,412	-	-	-	8,664,412
Federal Government	2,452,523	-	-	-	2,452,523
Local governments	2,368,220	-	-	-	2,368,220
Interest income	33,705	1,150	-	-	34,855
Interest expense	(26,627)	(330,773)	(68,718)	-	(426,118)
Total non-operating income (expense)	13,492,233	(329,623)	(68,718)	-	13,093,892
Change in net assets	574,797	125,320	40,595	-	740,712
Net assets - beginning of year	2,234,065	150,584	286,191	-	2,670,840
Net assets - end of year	\$ 2,808,862	\$ 275,904	\$ 326,786	\$ -	\$ 3,411,552
(A) As restated					

Hampton-Newport News Community Services Board
Combining Schedule - Statements of Cash Flows

Year Ended June 30, 2004

	Hampton-Newport News Community Services Board	Hampton-Newport News Community Services Board Property Company, Inc.	Share-A-Homes of the Virginia Peninsula	Eliminations	Combined
Cash flows from operating activities					
Receipts from customers and users	\$ 19,119,858	\$ 817,794	\$ 230,400	\$ (1,011,622)	\$ 19,156,430
Payments to suppliers	(13,586,204)	(69,367)	(26,688)	1,011,622	(12,670,637)
Payments to employees	(23,781,510)	-	-	-	(23,781,510)
Net cash from operating activities	(18,247,856)	748,427	203,712	-	(17,295,717)
Cash flows from noncapital financing activities					
Government appropriations	18,819,629	-	-	-	18,819,629
Due from affiliates	1,272,857	(1,173,685)	(707,626)	-	(608,454)
Net cash from noncapital financing activities	20,092,486	(1,173,685)	(707,626)	-	18,211,175
Cash flows from capital and related financing activities					
Purchase of property and equipment	(29,227)	(29,093)	(253,028)	-	(311,348)
Changes in security deposits	1,395	2,000	-	-	3,395
Increase in financing costs	-	(25,433)	(9,159)	-	(34,592)
Proceeds from long-term debt	-	1,200,000	1,050,000	-	2,250,000
Principal payments on long-term debt	-	(307,474)	(77,540)	-	(385,014)
Interest payments on debt	(16,166)	(329,989)	(69,622)	-	(415,777)
Principal payments on long-term capital lease	(135,166)	-	-	-	(135,166)
Decrease in note payable - bank	(1,450,000)	-	-	-	(1,450,000)
Increase in note receivable	(316,017)	-	-	-	(316,017)
Net cash from capital and related financing activities	(1,945,181)	510,011	640,651	-	(794,519)
Cash flows from investing activities					
Interest received on cash and short-term investments	33,350	10,670	966	-	44,986
Net cash from investing activities	33,350	10,670	966	-	44,986
Net change in cash and cash equivalents	(67,201)	95,423	137,703	-	165,925
Cash and cash equivalents - beginning of year	1,524,841	86,052	8,590	-	1,619,483
Cash and cash equivalents - end of year	1,457,640	181,475	146,293	-	1,785,408
Supplemental schedule of noncash investing and financing activity					
Property acquired by short-term bank loans	\$ -	\$ 9,399,537	\$ -	\$ -	\$ 9,399,537
Reconciliation of operating income to net cash from operating activities					
Operating loss before non-operating income (expense)	(17,256,681)	394,466	142,100	-	(16,720,115)
Adjustments to reconcile to net cash and cash equivalents from operating activities:					
Depreciation and amortization	257,959	317,184	61,612	-	636,755
Change in:					
Accounts receivable	(1,133,200)	5,000	-	-	(1,128,200)
Inventory	(11,366)	-	-	-	(11,366)
Prepaid expenses	81,400	-	-	-	81,400
Accounts payable	(113,506)	-	-	-	(113,506)
Accrued expenses	(72,462)	31,777	-	-	(40,685)
Net cash from operating activities	\$ (18,247,856)	\$ 748,427	\$ 203,712	\$ -	\$ (17,295,717)

Hampton-Newport News Community Services Board

Combining Schedule - Statements of Cash Flows

Year Ended June 30, 2003

	Hampton-Newport News Community Services Board (A)	Hampton-Newport News Community Services Board Property Company, Inc.	Share-A-Homes of the Virginia Peninsula	Eliminations	Combined
Cash flows from operating activities					
Receipts from customers and users	\$ 18,946,435	\$ 729,886	\$ 191,400	\$ (895,724)	\$ 18,971,997
Payments to suppliers	(8,977,398)	(23,954)	(25,635)	895,724	(8,131,263)
Payments to employees	(23,033,595)	-	-	-	(23,033,595)
Net cash from operating activities	(13,064,558)	705,932	165,765	-	(12,192,861)
Cash flows from noncapital financing activities					
Government appropriations	14,350,711	-	-	-	14,350,711
Due from affiliates	(1,330,009)	677,864	643,801	-	(8,344)
Net cash from noncapital financing activities	13,020,702	677,864	643,801	-	14,342,367
Cash flows from capital and related financing activities					
Purchase of property and equipment	(135,797)	(879,435)	(471,028)	-	(1,486,260)
Increase in escrow deposit	-	(6,000)	-	-	(6,000)
Changes in security deposits	1,395	(1,000)	-	-	395
Principal payments on long-term debt	-	(240,675)	(277,391)	-	(518,066)
Interest payments on debt	(26,627)	(330,773)	(68,718)	-	(426,118)
Principal payments on long-term capital lease	(158,290)	-	-	-	(158,290)
Increase in note payable - bank	1,250,000	-	-	-	1,250,000
Net cash from capital and related financing activities	930,681	(1,457,883)	(817,137)	-	(1,344,339)
Cash flows from investing activities					
Interest received on cash and short-term investments	33,705	1,150	-	-	34,855
Net cash from investing activities	33,705	1,150	-	-	34,855
Net change in cash and cash equivalents	920,530	(72,937)	(7,571)	-	840,022
Cash and cash equivalents - beginning of year	604,311	158,989	16,161	-	779,461
Cash and cash equivalents - end of year	\$ 1,524,841	\$ 86,052	\$ 8,590	\$ -	\$ 1,619,483
Reconciliation of operating income to net cash from operating activities					
Operating loss before non-operating income (expense)	(12,917,436)	454,943	109,313	-	(12,353,180)
Adjustments to reconcile to net cash and cash equivalents from operating activities:					
Depreciation and amortization	361,450	255,989	56,452	-	673,891
Change in:					
Accounts receivable	(654,015)	(5,000)	-	-	(659,015)
Inventory	8,030	-	-	-	8,030
Prepaid expenses	(24,535)	-	-	-	(24,535)
Accounts payable	249,242	-	-	-	249,242
Accrued expenses	(87,294)	-	-	-	(87,294)
Net cash from operating activities	\$ (13,064,558)	\$ 705,932	\$ 165,765	\$ -	\$ (12,192,861)

(A) As restated

Compliance Reports

***Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards***

Board of Directors

Hampton-Newport News Community Services Board

We have audited the financial statements of the ***Hampton-Newport News Community Services Board*** (CSB) as of and for the year ended June 30, 2004, and have issued our report thereon dated November 1, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

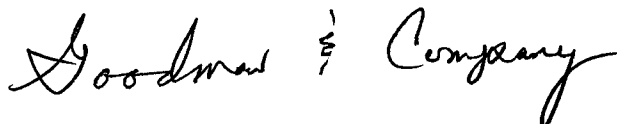
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CSB's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness. However, we noted a matter involving the internal control over financial reporting that we have reported to management of the CSB in a separate letter dated November 1, 2004.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CSB's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management of the CSB, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.



Newport News, Virginia
November 1, 2004

***Report on Compliance with Requirements Applicable
to Each Major Program and Internal Control Over
Compliance in Accordance With OMB Circular A-133***

Board of Directors

Hampton-Newport News Community Services Board

Compliance

We have audited the compliance of the ***Hampton-Newport News Community Services Board*** (CSB) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major program for the year ended June 30, 2004. The CSB's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the CSB's management. Our responsibility is to express an opinion on the CSB's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the CSB's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the CSB's compliance with those requirements.

In our opinion, the CSB complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

Management of the CSB is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the CSB's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

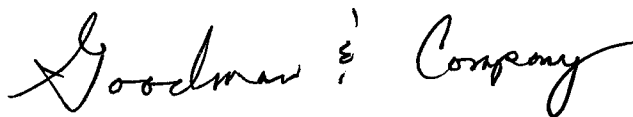
Board of Directors

Hampton-Newport News Community Services Board

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of the Board of Directors, management of the CSB, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Goodman & Company". The signature is written in dark ink and is centered horizontally.

Newport News, Virginia

November 1, 2004

Hampton-Newport News Community Services Board

Schedule of Findings and Questioned Costs

Year Ended June 30, 2004

I. Summary of Audit Results

- a. An unqualified opinion was issued on the financial statements.
- b. There were no reportable conditions in internal control to disclose.
- c. The audit did not disclose any noncompliance material to the financial statements.
- d. There were no reportable conditions in internal control over major programs to disclose.
- e. An unqualified opinion was issued on compliance for major programs.
- f. The audit did not disclose any audit findings required to be reported.
- g. The sole major program was the Substance Abuse Prevention and Treatment Block Grant.
- h. The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
- i. The auditee qualified as a low-risk auditee.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards

- a. None

III. Findings and Questioned Costs for Federal Awards

- a. None

IV. Status of Prior Year Findings

- a. There were no findings for the year ended June 30, 2003.